Your Future is Our Business
SHEPP
SASKATCHEWAN HEALTHCARE EMPLOYEES' PENSION PLAN
2007 Annual Report

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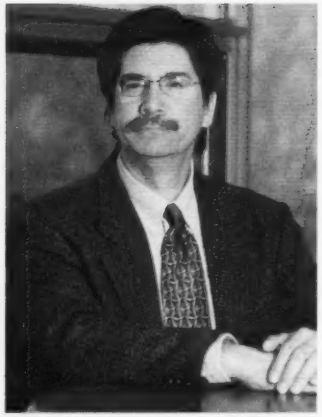
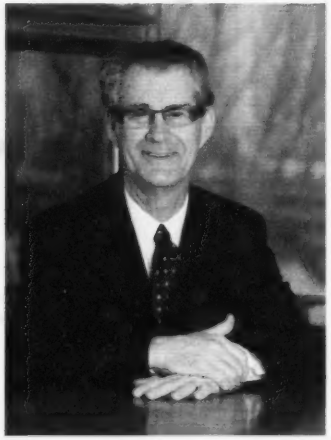


Andrew Huculak
Chair



Jim Tomkins
Vice-Chair

On behalf of the Board of Trustees, we are pleased to present you with the 2007 Annual Report of the Saskatchewan Healthcare Employees' Pension Plan (SHEPP).

In 2007 the Board remained focused on our mission to administer the plan in the best interests of our members through good governance, prudent investment and in a responsible and caring manner to ensure members receive the benefits they have been promised and the service they deserve.

One of the key accomplishments of the Board in 2007 was the development and approval of a Funding Policy. That policy sets out the Board's funding objectives and priorities, identifies the funding risks that could cause the plan to develop a funding deficit and sets out a strategy for responding to a funding deficit. The first funding objective of the policy, outlined by the Board, is to ensure the security of benefits to members.

Setting the policies and direction for the management of plan assets that totaled just over $3 billion at the end of the year and monitoring the performance of the investment managers dominated the Board's 2007 activities. These activities included:

- receiving and reviewing investment manager performance evaluations performed by the plan's investment consultants and the administration;
- reviewing the Statement of Investment Policies and Procedures and making changes to the asset allocation to include a new global equities mandate;
- interviewing and selecting investment managers for an active Canadian equity mandate and an active global equities mandate;
- taking action to replace an underperforming investment manager, in accordance with the Board's Investment Manager Selection and Monitoring Policy;
- restructuring mandates with existing investment managers to achieve reductions in management and custodian fees;
- attending investment information and education sessions addressing wide-ranging topics including liability driven investing, currency hedging, responsible investing, proxy voting and alternative investments such as real estate, infrastructure and private equity; and
- meeting with each investment manager to review the manager's performance and compliance with the Board's investment policies and to discuss any changes in the manager's investment personnel, philosophy, processes or ownership.

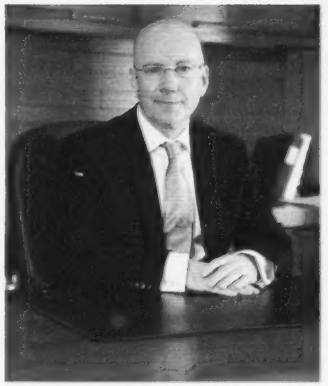
With the assistance of an external executive search firm, the Board undertook the challenge of recruiting a new General Manager. Candidates were short-listed and interviews were performed by a committee of the Board with the final candidate selection by the full Board.

The Board extends its best wishes to outgoing SHEPP General Manager, Garry Tramer, on his retirement and welcomes new General Manager, Brad Garvey. We also thank the SHEPP employees for their continued support, commitment and dedication. We look forward to serving plan members and participating employers in 2008.

Andrew Huculak
Chair

Jim Tomkins
Vice-Chair

Message from the General Manager



Brad Garvey
General Manager

2007 marked the 45th anniversary of Saskatchewan Healthcare Employees Pension Plan (SHEPP) operations and the completion of the fifth year the plan has been governed by a Board of Joint Trustees made up of an equal number of employee and employer representatives.

While 2007 was a year of overall steady progress, it was not without its challenges. The last half of the year saw a global credit crisis with negative impact on public stock and bond portfolios. As well, the strengthening Canadian dollar negatively impacted the performance of foreign equities. Despite this environment, the fund returned 2.3 per cent for the year, slightly behind the benchmark of 2.5 per cent.

Managing the investment risk of the fund is a priority. It requires setting the appropriate balance between risk and return. To this end, we continue to look to diversify our investment portfolio. We adjusted our asset mix policy in 2007 to provide greater exposure to global equity markets and to expand the mandate of one of our investment managers to permit taking limited short positions. In addition, we continued to consider alternative opportunities. The priority is on inflation sensitive assets such as real estate, infrastructure, timber and commodities, all to better manage the risk of the plan.

The Board, with the support of well-qualified investment consultants, external investment managers and on-staff professionals, is deeply engaged in developing, executing, evaluating and modifying policies and procedures to generate investment returns, within our risk tolerance, that will secure the pension promise.

Our use of new systems technologies produced service improvements for both plan members and participating employers in 2007.

Building upon our core Penfax system, we introduced *SHEPPWeb*. This is a secure online service where active members can perform pension estimate and prior service purchase cost and benefit estimate calculations. We completed the rollout of *SHEPPWeb* to all active plan members in April 2007 and the feedback has been very positive.

At the end of the year, we were in the final testing stages of a *SHEPPWeb* enhancement that will bring into operation online forms. This initiative will bring the use of most paper forms in the administration of the plan to an end. Most significantly, it will bring participating employers and SHEPP administration into effective online work groups to perform and track the day-to-day business of enrolling employees, updating member records, processing retirements and terminations and requesting SHEPP services on a more timely and effective basis.

2007 closes with an actuarial valuation. The plan's actuary will be performing a valuation to determine the financial position of the plan at December 31, 2007 and to determine the member and employer contribution rates required to fund the credit of current service to plan members beyond the end of 2007. Preparation and planning for the valuation was conducted throughout 2007. Valuation results are targeted to be presented to the SHEPP Board of Trustees at its September 2008 meeting.

We are committed to working to improve and deliver value to plan members. I thank our plan members for their continued support and the SHEPP staff and the Board of Trustees for their commitment and effort in making 2007 a success.

Brad Garvey
General Manager

Profile

Our Mission

To administer the pension plan in the best interests of our members through good governance, prudent investment and in a responsible and caring manner to ensure members receive the benefits they have been promised and the service they deserve.

Our Vision

SHEPP contributes to a better retirement future for its members through its competitive benefits and commitment to quality, innovation and cost-effectiveness.

Our Values

Openness and Accountability
Integrity, Trust and Respect
Professionalism,
Leadership and Service Excellence, Initiative and Innovation

About us

The Saskatchewan Healthcare Employees' Pension Plan (SHEPP) is the largest defined benefit pension plan in Saskatchewan, with $3 billion in assets.

Originally established in 1962 for Saskatchewan hospital employees, the plan has grown to become the pension plan for over 42,000 current and former healthcare workers in the province.

With its competitive pension formula, enriched early retirement and bridge benefits, portability and transfer features, the plan forms the foundation for financial security for members at retirement.

Board of trustees

The Board is made up of four employer appointed and four employee appointed trustees. Saskatchewan Association of Health Organizations (SAHO) appoints the employer trustees and the four largest healthcare unions each appoint one employee trustee:

Canadian Union of Public Employees
Service Employees International Union
Saskatchewan Union of Nurses
Health Sciences Association of Saskatchewan

Partner committees

Plan design issues, such as benefit and contribution levels, are negotiated by two partner committees representing employers and employees.

SAHO appoints representatives to the employer committee, and six healthcare unions appoint representatives to the employee committee:

Canadian Union of Public Employees
Service Employees International Union
Saskatchewan Union of Nurses
Health Sciences Association of Saskatchewan
Saskatchewan Government and General Employees' Union
Retail, Wholesale and Department Store Union

SHEPP employees

Under the oversight of the Board of Trustees, SHEPP's 20 employees are responsible for the day-to-day operation of the plan.

SHEPP employers

A total of 67 healthcare employers in Saskatchewan participate in SHEPP on behalf of their employees:

All Nations Healing Hospital
Alzheimer Society of Saskatchewan Inc.
Bethany Pioneer Village
Birch Manor
Border-Line Housing Co. (1975) Inc.
Creighton Alcohol and Drug Abuse Council
Cypress Health Region
Deer Park Villa Inc.
Dr. Noble Irwin Healthcare Foundation Inc.
Eaglestone Lodge - Personal Care Home Inc.
Eatonia Oasis Living Inc.
Elmwood Residences Inc.
Extendicare Moose Jaw
Extendicare Saskatoon
Extendicare Regina
Five Hills Health Region
Foyer Saint Joseph Nursing Home
George Bailey Counselling Centre
Gull Lake & District Road Ambulance Board Corporation
Haven of Hope Home Inc.
Heartland Regional Health Authority
Herbert Group Home
Herbert Nursing Home Inc.
Ina Grafton Gage Home
Keewatin Yatthé Regional Health Authority
Kelsey Trail Health Region
Langham Senior Citizen's Home
Lumsden & District Heritage Home
LutherCare Communities
Mamawetan Churchill River Regional Health Authority
Métis Addictions Council of Saskatchewan Inc.
Mont St. Joseph Inc.
Moose Jaw Alcohol & Drug Abuse Society Inc.
Moose Jaw Health Foundation
North Sask. Laundry & Support Services Ltd.
Oak Trees & Acorns Child Care Centre Inc.
Pioneers Haven Co. Inc.
Prairie North Regional Health Authority
Prince Albert Council on Alcohol & Drug Abuse
Prince Albert Parkland Regional Health Authority
Providence Place for Holistic Health
Qu'Appelle House
Radville Marian Health Centre
Regina Lutheran Home
Regina Pioneer Village Ltd.
Regina Qu'Appelle Regional Health Authority
Regina Recovery Homes Inc.
Registered Psychiatric Nurses Assoc. of Saskatchewan
Saint Joseph's Health Centre
Saint Joseph's Home
Saint Joseph's Hospital, Estevan
Saint Joseph's Hospital, Gravelbourg
Saint Joseph's Hospital, Ile a La Crosse
Salvation Army William Booth Special Care Home
Santa Maria Senior Citizens Home Inc.
Saskatchewan Voice of People with Disabilities Inc.
Saskatchewan Association of Health Organizations
Saskatchewan Association of Licensed Practical Nurses
Saskatchewan Cancer Agency
Saskatchewan Healthcare Employees' Pension Plan
Saskatchewan Society of Medical Laboratory Technologists Inc.
Saskatoon Housing Coalition
Saskatoon Regional Health Authority
Spadina Early Learning and Childcare Co-operative
Sun Country Regional Health Authority
Sunrise Health Region
The Health Foundation of East Central Saskatchewan

Management's Responsibility for Financial Reporting

The SHEPP consolidated financial statements and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Trustees.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include some amounts that are necessarily based on management's best estimates and judgments. Financial and operating information presented in the Annual Report are consistent with the consolidated financial statements. Systems of internal control and practices are maintained to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

KPMG LLP, the external auditor appointed by the Board of Trustees, has conducted an independent examination of the consolidated financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in the Auditors' Report. The external auditor has unrestricted access to management and the Board of Trustees to discuss any findings related to the integrity of the plan's financial reporting and adequacy of the internal control systems.

Brad Garvey
General Manager

Financial Highlights

Consolidated Statement of Net Assets

	2007 (000's)	2006 (000's)
Assets		
Investments	$ 3,075,402	$ 2,862,033
Accrued interest receivable	1,340	1,285
Members' contributions receivable	6,033	5,687
Employers' contributions receivable	6,757	6,369
Dividends receivable	1,766	1,065
Securities transactions receivable	60	88,958
Capital assets	1,779	2,003
Other receivables	481	142
Prepaid expenses	101	83
	3,093,719	2,967,625
Liabilities		
Accounts payable	2,586	1,870
License Fee payable	160	310
Mortgage payable	18,319	-
Provision for accrued pension benefits	2,888,346	2,676,785
	2,909,411	2,678,965
Net Assets	$ 184,308	$ 288,660

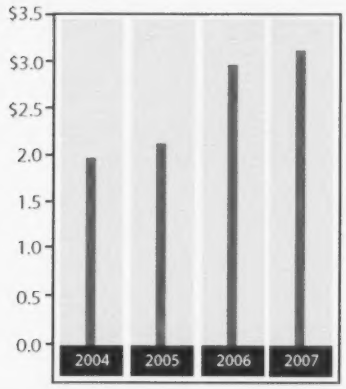
If you would like to receive a copy of SHEPP's 2007 audited financial statements, please contact sheppinfo@shepp.ca.

Consolidated Statement of Changes in Net Assets

	2007 (000's)	2006 (000's)
Increase in Net Assets		
Contributions - Members	$ 70,017	$ 67,912
Contributions - Employers	78,419	76,061
Contributions - Other	3,904	4,071
Investment income	37,967	47,560
Net realized gain on investments	363,378	163,105
Realized gain on foreign exchange	3,284	-
	556,969	358,709
Decrease in Net Assets		
Pension benefits	82,942	73,647
Terminations and death benefits	21,611	18,179
Change in provision for accrued pension benefits	211,561	207,155
Realized loss on foreign exchange	-	24,204
	316,114	323,005
Expenses		
Administrative expenses	2,382	2,117
Consulting fees	441	455
Custodian fees	268	217
Fund management fees	6,949	6,296
Investment counseling fees	180	175
Professional fees	222	199
Investment transaction fees	839	-
	11,281	9,459
	327,395	332,464
Unrealized Gains (Losses)		
Unrealized market value (loss) gain	(356,266)	166,275
Unrealized gain on foreign exchange	22,340	5,163
	(333,926)	171,438
Net (Decrease) Increase in Net Assets	(104,352)	197,683
Net Assets, Beginning of Year	288,660	90,977
Net Assets, End of Year	$ 184,308	$ 288,660

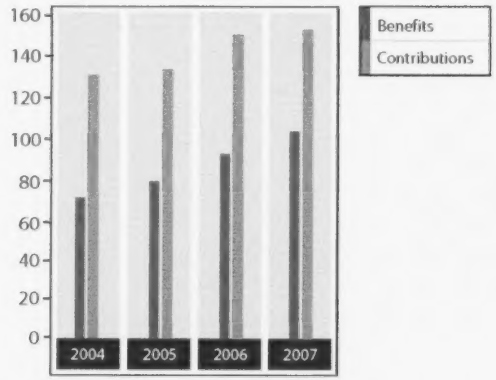
Net Assets *(prior to provision for accrued pension benefits)*

(in billions)



Benefits and contributions

(in millions)



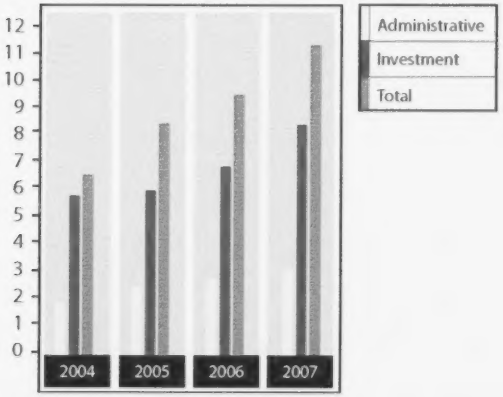
Net assets available for benefits increased by $107 million in 2007.

Employee and employer contributions to the Plan were $152 million in 2007.

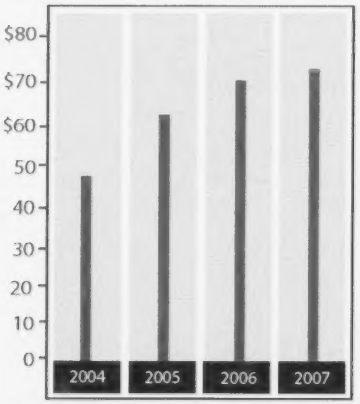
A total of $105 million was paid out in pension, termination and death benefits during the year, a 13.8 per cent increase over the previous year.

Administrative expenses, investment expenses, and total expenses

(in millions)



Administrative cost per member



In 2007, the cost of providing services to plan members was $72 per member. This cost ranks among the lowest compared to other public service pension plans that benchmark costs. SHEPP remains committed to administering the plan in a cost effective manner.

Member Services

Did you know?

Over 32,000 personal statements were mailed to members last year.

In 2007, our web site received 620,331 requests for information from 10,263 visitors to the site.

This far exceeded the 261,317 requests received last year.

We provide a number of services to members throughout their entire membership in the plan. Whether they are receiving pension benefits, thinking about retirement or new members to the plan, our goal is to provide the highest quality of service.

This means friendly, timely and accurate service designed to keep them informed and provide them with the personalized information they need to make educated retirement decisions.

Customer service

We provide friendly and efficient customer service in person, by phone, fax, regular mail and e-mail. SHEPP handled thousands of requests for information from members in 2007. For example, SHEPP performed 7,511 retirement, termination and death benefit calculations and 124 spousal relationship breakdown calculations last year.

SHEPP staff also delivered pension presentations at employer sites throughout the province.

Personalized information

Annually, members receive personal statements of their SHEPP benefits, contributions and service. The statements use a friendly format to help members better understand the key features of their SHEPP benefits.

Print and online materials

We publish a full range of printed materials relating to the plan. Among those is the plan booklet, which explains the plan and its benefits.

Information sheets such as beneficiary designations, purchase of prior service, spousal relationship breakdown, power of attorney and portability agreement transfers are available, and information sheets on other topics are planned for the future.

Our web site at www.shepp.ca provides a wealth of information on everything from governance to investments, as well as links to other sites.

SHEPPWeb

SHEPP has developed a secure on-line pension information service for active plan members. *SHEPPWeb* member self-service was rolled out to all active plan members in 2007. Using *SHEPPWeb*, active plan members can:

- perform pension projection calculations;
- perform prior service cost estimates;
- view and print their latest member's annual statement; and,
- view and print key elements of their pension record in SHEPP.

This new service gives members more flexibility and access to their pension information 24 hours a day, seven days a week.

SHEPP serves over 42,000 members:

- 31,430 active members (including members absent from employment due to approved disability)
- 9,437 retired members, surviving spouses and beneficiaries
- 1,433 deferred members, or former members who left their funds in SHEPP to collect a pension at retirement

SHEPP welcomed 2,622 new members in 2007.

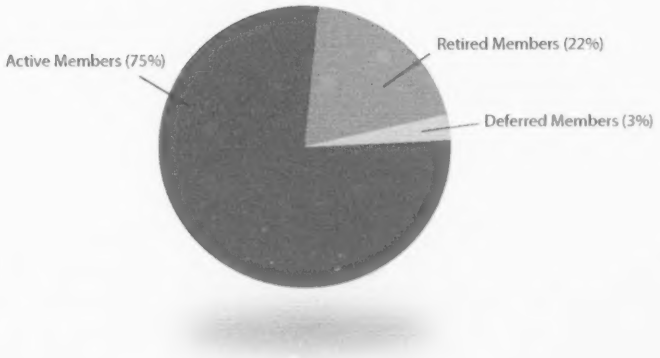
About 89 per cent of members are women.

Forty-three per cent of members work less than full-time.

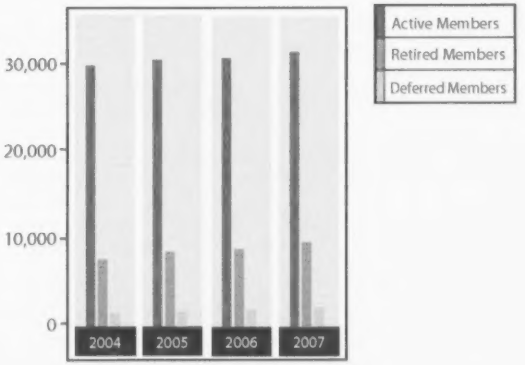
The average active plan member is 45.5 years old.

Members absent from employment due to approved disability continue to earn credited service and are deemed to have received pensionable earnings under the plan.

Our Membership



Historical Profile



During the next 10 years, 11,644 members will be eligible to retire with an unreduced pension.

The average new lifetime pension in 2007 was $1,148 per month. In addition, the average new bridge benefit was $225 per month for members who met the rule of 80 (age plus service).

Contributions and benefits

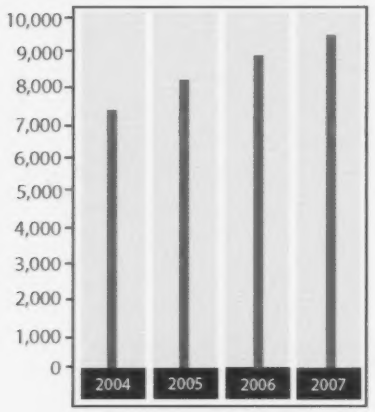
In 2007, we collected $152 million in contributions from members and employers.

During the year, a total of $83 million in pension benefits, and $22 million in termination and death benefits were paid out of the plan.

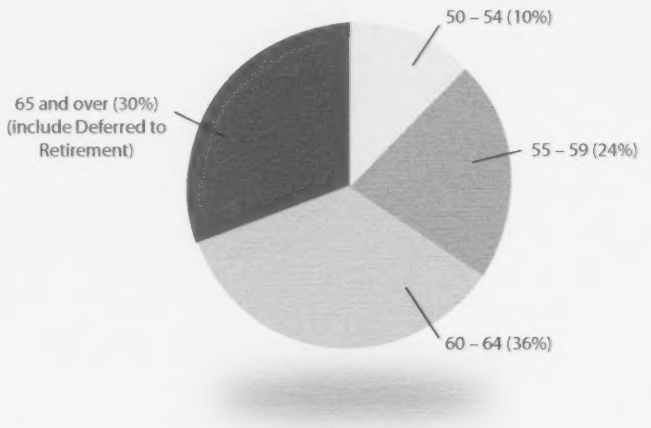
Retired members, spouses and beneficiaries

In 2007, we provided accurate and timely pension payments to 9,437 retired members, including 679 newly retired members.

Number of Retired Members



Age of new retired members



Fund Performance

How the fund is invested

SHEPP's assets are invested in accordance with the Board of Trustees' investment philosophy and objectives, which are outlined in its Statement of Investment Policies and Procedures.

The Board's goal is to ensure there will be sufficient funds available to pay the benefits promised under the plan. Its investment philosophy is one of prudence, with a view to earning the best possible returns within an acceptable level of risk.

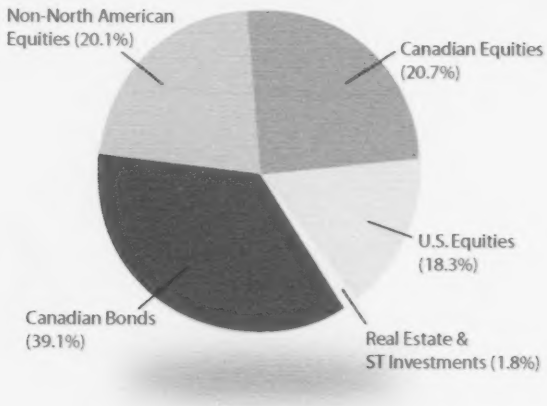
What the fund is invested in

The following charts show the fund's investments by asset class.

Historical asset mix (%)

	2004	2005	2006	2007
Canadian Equities	22.3	22.1	22.6	20.7
Non-North American Equities	20.8	20.2	21.9	20.1
U.S. Equities	17.7	18.4	18.1	18.3
Real Estate	0.2	0.2	0.2	0.7
Canadian Bonds	35.1	37.9	33.2	39.1
Short-Term Investments	3.9	1.2	4.0	1.1
	100	100	100	100

Asset mix



If you are interested in receiving a copy of SHEPP's Statement of Investment Policies and Procedures, please visit our website or contact sheppinfo@shepp.ca

SHEPP's long-term target asset mix is about 60 per cent equities, 35 per cent fixed-income (bonds) and five per cent real estate.

In 2007, the fund achieved an investment return of 2.3 per cent, 0.2 per cent below its benchmark.

Investment expenses consist of fund manager, consultant and custodian fees. In 2007, the total cost of these services were about 0.24 per cent of assets.

2007 Investment Performance

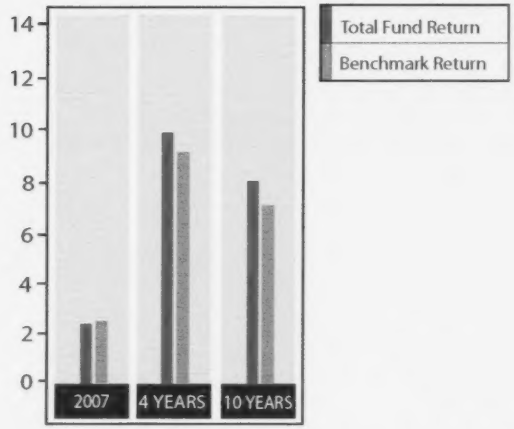
The investment objectives for the fund's performance over the long term are to outperform the benchmark set for the fund and for each asset class. The benchmarks reflect the performance of the markets in which the fund is invested.

The total fund return of 2.3 per cent reflects weak financial markets in the last five months of the year and a very strong Canadian dollar, relative to other currencies, at the end of the year.

The fund's four year annualized rate of return of 9.7 per cent remains strong based upon double digit returns each year from 2004 to 2006. The 2007 return fell below both the benchmark and liability proxy indicating a weakening in the plan's funding position in the year.

On a 10-year basis, the fund realized an 8 per cent annualized return, versus the benchmark return of 7.1 per cent.

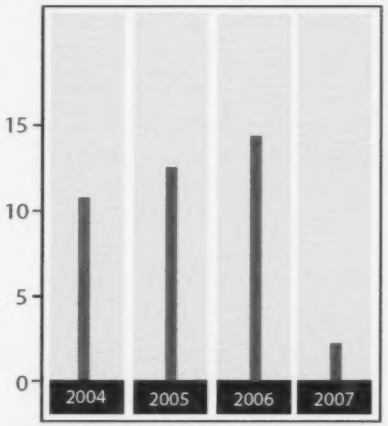
Total fund vs. benchmark return (%)



Total fund return (%)

	2005	2006	2007
Annual return	12.1	13.9	2.3
Annual benchmark	11.4	13.6	2.5
Four year annualized return	8.3	12.6	9.7
Four year annualized benchmark	7.2	12.1	9.0

Historical total fund return (%)



SHEPP Directory

2007 Board of Trustees

Chair
Andrew Huculak
National Representative,
Canadian Union of Public Employees

Vice-Chair
Jim Tomkins
President and Vice-Chancellor,
University of Regina

Trustees

Natalie Horejda
Member - Board of Governors
Health Sciences Association of Saskatchewan

Muriel Morhart
Staff Representative,
Service Employees International Union

Kay Robertson
Lawyer

Marg Romanow
Benefits Officer,
Saskatchewan Union of Nurses

Joe Rybinski
Vice-President Human Resources,
Kelsey Trail Regional Health Authority

Trent Szabo
Director of Payroll & Benefits,
Sunrise Health Region

Administration

General Manager
Brad Garvey

2007 SHEPP Board
Back Row: Natalie Horejda (Trustee), Jim Tomkins (Vice-Chair), Andrew Huculak (Chair), Marg Romanow (Trustee), Muriel Morhart (Trustee)
Front Row: Kay Robertson (Trustee), Trent Szabo (Trustee), Joe Rybinski (Trustee)

External Advisors and Agents

Actuary
Aon Consulting

Auditor
KPMG LLP

Custodian
CIBC Mellon Global Securities

Legal Counsel
Lawson Lundell LLP
Balfour Moss LLP

Pension Administration System Supply & Support
James Evans & Associates
Cronus Technologies

Investment Advisor
Hewitt Associates

Performance Measurement Service
BNY Mellon Asset Servicing

Investment Managers
Barclays Global Investors
Bentall Investment Management
Bissett Investment Management
Foyston, Gordon & Payne
Franklin Templeton Investments
Greystone Managed Investments
JP Morgan Asset Management
Montrusco Bolton Investments
Phillips, Hager & North Investment Management
State Street Global Markets

We welcome your comments and suggestions
on this annual report.
Contact us at:

Phone 306.751.8300 (in Regina)
Toll free 1.866.394.4440
e-mail sheppinfo@shepp.ca

SHEPP

SASKATCHEWAN HEALTHCARE
EMPLOYEES' PENSION PLAN

4th Floor, 295 Henderson Drive
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E-mail sheppinfo@shepp.ca
Web Site www.shepp.ca